

Message Text

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ACTION ARA-06

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C O N F I D E N T I A L LIMA 10572

LIMDIS

FOR: ARA - MR. FISHLOW; S/P - MR. EINAUDI; EB. MR. RICHARD
SMITH; TREASURY - MR. MARESCA; L/ARA - MR. GANTZ

EO 11652: GDS

TAGS: ENRG, EINV, EIND, EGEN, PFOR, PE

SUBJECT: OCCIDENTAL PACKAGE - PETROPERU TO BUILD SPUR-LINE

REF: LIMA 10412

1. SUMMARY: LOCAL OCCIDENTAL MANAGER, GERHARD JANSEN, TOLD
EMBOFF ON DECEMBER 23 THAT GOP HAS REVERSED ITS STAND
REQUIRING OXY TO BUILD THE SPUR-LINE TO ITS FIELDS, AND THAT
PETROPERU HAD NOT AGREED TO DO SO. REVERSAL FOLLOWED REJECTION
BY CABINET ON DECEMBER 16 OF REQUEST TO GOP BY OXY THAT PERU
GUARANTEE PORTION OF FOREIGN FINANCING AND DECISION BY
CABINET THAT PETROPERU SHOULD BUILD THE SPUR-LINE.
DETAILS OF AGREEMENT WERE WORKED OUT BETWEEN OXY AND
PETROPERU DURING THE WEEKEND OF DECEMBER 20-21. AGREE-
MENT WILL INVOLVE HIGHER TARIFF COSTS TO OXY. SALES
AGREEMENT AND TOPPING PLANT WOULD ALSO BE INCLUDED. OXY
MANAGEMENT HAS AGREED AND PACKAGE IS BEING CONSIDERED
BY COUNCIL OF MINISTERS TODAY. JANSEN IS RELATIVELY
OPTIMISTIC THAT FINAL AGREEMENT WILL BE APPROVED VERY
SOON. OXY MUST HAVE RESPONSE SOONEST SINCE IT STILL
HAS TO MAKE A DECISION PRIOR TO DECEMBER 31, 1975,
DEADLINE. IF GOP AGREES, WHICH SEEMS LIKELY, SITUATION
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WOULD RETURN TO STATUS QUO ANTE OF JULY 1974 BEFORE

DECISION BY GOP THAT OXY HAD TO BUILD THE SPUR-LINE.
PRIOR TO THAT TIME, GOP HAD AGREED TO BUILD THE LINE.
WE PRESUME THAT GOP WOULD SEEK EX-IM FINANCING FOR A PORTION
OF THE SPUR-LINE COSTS. END SUMMARY.

2. OXY'S MANAGER JANSEN INFORMED EMBASSY ON DECEMBER 23
THAT COUNCIL OF MINISTERS CATEGORICALLY REJECTED AUTHOR-
IZATION FOR COFIDE TO GUARANTEE FOREIGN FINANCING OF
OXY'S SPUR-LINE AT COUNCIL OF MINISTERS MEETING ON
DECEMBER 16. OXY THEN SENT A LETTER TO MINES MINISTER
LA VERA VELARDE INFORMING HIM THAT WITHOUT THE
GUARANTEE OXY COULD NOT CONTINUE OPERATIONS IN PERU. AT
THIS POINT, ACCORDING TO JANSEN, LA VERA THEN ORDERED
PETROPERU TO BUILD THE SPUR-LINE AND WORK OUT THE PACKAGE
WITH OXY. WE UNDERSTAND THAT DECISION WAS MADE AT COUNCIL OF
MINISTERS MEETING LAST WEEK.

3. OXY AND PETROPERU OFFICIALS WORKED THROUGHOUT THE
WEEKEND OF DECEMBER 20-21 AND REACHED FINAL AGREEMENT.
JANSEN SAID THAT RECALCULATING THRU-PUT FIGURES WAS
NOT AS DIFFICULT AS MIGHT BE SUPPOSED SINCE PETROPERU
AND OXY MERELY ADDED TOGETHER THE CALCULATIONS FOR THE
MAIN AND SPUR-LINES. (HE DID NOT, HOWEVER, MENTION
WHAT THE NEW TARIFF TO OXY WILL BE.)

4. AGREEMENT SPECIFIES THAT OXY WILL PROVIDE PETROPERU
WITH ALL ITS SPECIFICATIONS FOR THE SPUR-LINE WHICH
WOULD BE CONSTRUCTED ALONG THE SAME ROUTE AS OXY HAD
PLANNED. LINE WOULD BE BUILT TO CARRY 80,000 B/D.

5. COMMENT: GOP DECISION NOT TO MAKE AVAILABLE A
GUARANTEE TO OXY DOES NOT COME AS A SURPRISE, BUT
DECISION THAT PETROPERU SHOULD BUILD THE SPUR DOES.
IN 1974, AFTER PREPARATIONS WERE UNDERWAY FOR PETROPERU
TO BUILD THE LINE, MINES MINISTER FERNANDEZ MALDONADO
SUDDENLY ANNOUNCED THAT THE COMPANY
WOULD BE RESPONSIBLE FOR THE SPUR-LINE. THUS, SINCE
THAT TIME THE COMPANY HAS BEEN CALCULATING SPUR-LINE
COSTS INTO ITS OVERALL FINANCIAL PLAN FOR PERU. WITH
RISKS REDUCED BY APPROXIMATELY THE COST OF THE SPUR-LINE
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(\$120 MILLION), OXY'S MANAGEMENT IS NOW WILLING TO
MOVE AHEAD. GOP DECISION, IF APPROVED BY COUNCIL OF MINISTERS, WOULD
INDICATE SUBSTANTIAL FLEXIBILITY ON THE PART OF GOP AND RECOGNI-
TION THAT IT NEEDS OXY IN ORDER TO DEVELOP THE FIELDS WHICH
CONTAIN A SUBSTANTIAL QUANTITY OF PERU'S PROVEN RESERVES.
IMPORTANCE OF THESE FIELDS TO PERU WAS INDICATED TO US
BY WELL-INFORMED CENTRAL BANK OFFICIAL WHO HAS TOLD US
THAT WITH OXY'S FIELDS AND PETROPERU'S FIELDS IN

PRODUCTION BY EARLY 1978, PERU WOULD HOPE TO SAVE CLOSE
TO \$300 MILLION IN OIL IMPORTS ANUALLY BY THAT TIME.
IF APPROVED, WE PRESUME THAT GOP WILL SEEK
FINANCING FOR AT LEAST PART OF SPUR-LINE FROM
EX-IMBANK.
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